

2012 Legislative Update

The 2012 Hawaii State Legislature has passed three bills affecting the ERS. Below are summaries of the new laws. For more information on this and other legislation, you may visit the Legislative website at: www.capitol.hawaii.gov.

Act 152 (SB 1269) – Amends the definition of “compensation” for new ERS members after June 30, 2012 – Effective June 30, 2012:

- Amends the definition of “compensation” under HRS § 88-21.5 for new ERS members after 6/30/2012 for the purposes of ERS benefit calculations
- Compensation will essentially be defined as normal periodic payments, including shortage differentials and DOE 12-month differentials
- Compensation will not include overtime, supplemental payments, bonuses, lump sum salary supplements and other types of differentials

Act 153 (HB 2487) – Corrects sections related to the new benefit structure effective July 1, 2012 and also addresses the unexpected increases in retirement benefits for some members of the ERS and the resulting increase in the unfunded liability of the System by requiring the retiree’s last employer to pay the costs attributable to “pension spiking” – Effective July 1, 2012:

- Harmonizes ordinary disability and ordinary death benefits for new members of the ERS with their service retirement benefits
- Makes consistent through all types of credited service, the years of credited service component utilized in the average final compensation formula
- Requires the retiree’s last employer to pay the additional costs resulting from sudden increases in the member’s non-base pay during the member’s final years of employment

Act 72 (SB 2751) – Includes the requirement that two members of the ERS Board of Trustees shall have at least three years of investment experience – Effective April 24, 2012:

- Amends HRS § 88-24 to require that at least two of the ERS Board of Trustees’ three appointed trustees have at least three years of experience providing financial services, including investments, to public, corporate or private institutional clients

Information on the benefit effects of Act 152 for Hybrid and Contributory members have been updated in our “Your Employees’ Retirement System” brochures available on our website under the “Active/New Hire” link under the “Members” tab. For employers, information on Acts 152 and 153 are available at the “Employer Information/FAQ’s” link under the “Employers” tab at our website: <http://ers.ehawaii.gov>

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We are pleased to report that the ERS received a favorable determination letter from the Internal Revenue Service that permits the ERS to continue with its tax-exempt status, subject to statutory and administrative rule changes that are required within the coming year. This tax-exempt status allows the ERS and its members to experience favorable treatment over the federal income tax requirements.

The 2012 Legislative Session is over and we made an important step in helping with the funding situation. I am extremely thankful for the Board of Trustees' and legislators' efforts and leadership in addressing the ERS' pension and unfunded liabilities. The goal is to ensure a sustainable ERS. Although we may not realize a significant impact to the pension and unfunded liabilities (which are currently reported at \$20 billion and \$8.2 billion, respectively) for many years to come, Senate Bill 1269 and House Bill 2487 will provide some relief to the increasing ERS liabilities.

Since our pension fund is over \$11 billion in assets and we pay out more than \$1 billion in pension payments annually to about 40,000 pensioners, we have undertaken work to provide for an internal audit assessment and processes that will strengthen our controls, security, and accountability over the large amount of receipts and payments handled by ERS staff, contractors, and consultants. We will update you on our progress with this effort.

We will be looking at conducting surveys in the near future to help improve our services. Information on these surveys will be provided in our upcoming newsletters. We hope that you are having a good year, and that the rest of 2012 is even better.

Aloha,
Wes Machida

New Plan Benefit Structure:

The passage of Act 163 (SLH 2011) last year created a new benefit plan structure for all employees who become members of the ERS after June 30, 2012. The charts below and on page three show a comparison of the previous and new plan benefit structures. Note: The Noncontributory plan is not included for this comparison.

Membership date PRIOR to 7/1/2012							
Class	Hybrid		Contributory				
Group	General	SW, WSO, EMT	General	Judges	Elected, Legislative Officers	Police, Fire, Investigator, ACO	SW, EMT
Normal Retirement	62 w/ 5 yos 55 w/ 30 yos	62 w/ 5 yos Any age w/ 25	55 w/ 5 yos	55 w/ 5 yos	55 w/ 5 yos Any age w/ 10 yos	55 w/ 5 yos Any age w/ 25 yos	55 w/ 5 yos Any age w/ 25 yos
Early Retirement (Age Penalty)	55 w/ 20 yos	55 w/ 20 yos	Any age w/ 25 yos	Any age w/ 25 yos	Any age w/ 10 yos (mixed)	Any age w/ 25 yos (mixed)	Any age w/ 25 yos (mixed)
Multiplier	2.0%	2.0%	2.0%	3.5%	3.5%	2.5%	2.0%
Post-Retirement (COLA)	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
AFC	3 years	3 years	3 years	3 years	3 years	3 years	3 years
Vesting	5 yos	5 yos	5 yos	5 yos	5 yos	5 yos	5 yos
**Interest Rate on contributions	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Contribution Rate	6.0%	9.75%	7.8%	7.8%	7.8%	12.2%	7.8%

****For membership dates after June 30, 2011, interest at 2.0%** YOS - Years of service AFC - Average Final Compensation

Report from Rod June, Chief Investment Officer

“Buy low, sell high.” Many of us have heard this adage but what does it mean in practical terms? This article addresses the methodology of *portfolio rebalancing* to ensure an investment discipline that is true to the investment philosophy of buy low/sell high.

To illustrate this concept, we start with a fictitious investment portfolio valued at \$200 with asset class policy targets established at 50% for equities (i.e., stocks) and 50% for bonds. A tolerance band percentage is established above and below each policy target to indicate when a rebalance should be initiated. In this example, we will employ equity and bond tolerance bands of 20% and 10% above and below their policy targets, respectively.

Let's assume that equity values rose resulting in an equity asset class value of \$120 and that bonds declined resulting in a bond asset class value of \$90. At these new asset valuations, the tolerance band thresholds have been reached, and a rebalance will be initiated that brings the portfolio back to its 50% equity/50% bond weightings by selling \$15 from the equity asset class ($\$120 - \$15 = \$105$) and simultaneously buying \$15 in bonds ($\$90 + \$15 = \105). Upon completion of this exercise, the portfolio is restored to its original policy targets of 50% equity and 50% bonds, each with a new asset class value of \$105 equaling a total portfolio value of \$210.

Why do we sell some of the rising equity assets and buy more of the declining bond assets rather than buy more of the rising equities and sell off more of the declining bonds? The basic logic is that asset classes do not trend in one single direction for an extended period of time, and eventually reverse direction during a market correction. Using the rebalancing methodology described in this article keeps the portfolio's return and risk profile constant over time and true to the investment philosophy of *buy low/sell high*.

With the new benefit plan structure in place your ERS membership date will be the key element in determining any future retirement benefits. If you are planning on leaving government service there are many factors that may adversely affect your membership date and therefore impact your retirement benefits. This is especially true for current members with membership dates prior to July 1, 2012. You should contact our office to discuss your situation with one of our staff members who can provide you with the most up-to-date information on your retirement benefits and explain the different options that may be available to you should you decide to leave government service.

Membership date AFTER 6/30/2012

Class	Hybrid		Contributory				
Group	General	SW, WSO, EMT	General	Judges	Elected, Legislative Officers	Police, Fire, Investigator, ACO	SW, EMT
Normal Retirement	65 w/ 10 yrs 60 w/ 30 yrs	65 w/ 10 yrs 55 w/ 25 yrs	60 w/ 10 yrs	60 w/ 10 yrs	Any age w/ 10 yrs	60 w/ 10 yrs 55 w/ 25 yrs	60 w/ 10 yrs 55 w/ 25 yrs
Early Retirement (Age Penalty)	55 w/ 20 yrs	55 w/ 20 yrs	55 w/ 25 yrs	55 w/ 25 yrs	Any age w/ 10 yrs (mixed)	55 w/ 25 yrs (mixed)	55 w/ 25 yrs (mixed)
Multiplier	1.75%	1.75%	1.75%	3.0%	3.0%	2.25%	1.75%
Post-Retirement (COLA)	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
AFC	5 years	5 years	5 years	5 years	5 years	5 years	5 years
Vesting	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs
Interest Rate on contributions	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Contribution Rate	8.0%	11.75%	9.8%	9.8%	9.8%	14.2%	9.8%

New website . . . New perspectives

The new ERS website has been redesigned with a member friendly perspective making it easier to find information about your retirement system. As noted in the Holomua and other ERS publications, you may access our website at the following address: <http://ers.ehawaii.gov>

The home page instantly updates members with ERS news and latest tweets about ERS activities. At a quick glance the calendar displays meeting notices, basic information sessions and workshops happening around the State.

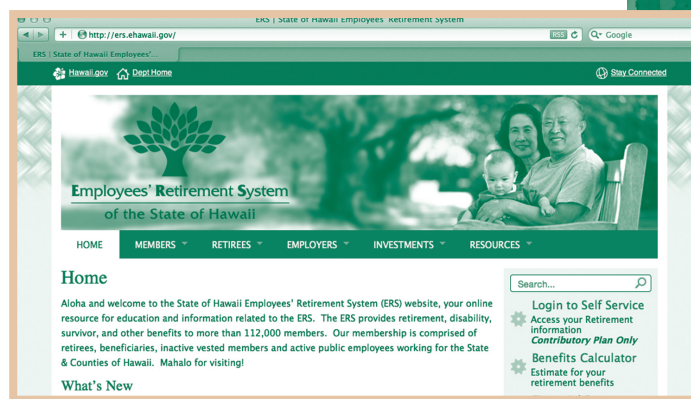
The “Members” tab offers topics such as ERS benefits under the various plans, reporting the death of a member, leaving employment and retirement planning. There is also a section just for “Retirees” that provides them with pension information and pension forms.

A new “Employers” section provides the latest information to our personnel and payroll departments regarding enrollment and pay breakdowns. The personnel and payroll departments play a vital role as partners in ensuring our members’ service and compensation are reported correctly and in a timely way.

In the general “Resource” tab you will find information about the Board of Trustees, financial reports and a glossary of terms, just to name a few of the common items of interest.

Located on the right border, the ERS is now available via email - just click on “ERS” and a message page is created instantly from your email server. Have you checked out the website and read the publications, but still have unanswered questions? Call us or send us an email for more information.

Did you like the new layout? Were you able to locate all the information you needed? Would you like to see a specific topic? Let us know how we are doing by filling out a quick “Feedback” survey located at the bottom (footer) section of the page.



2012 Fall Filing Session Schedule

The ERS has scheduled counseling appointment times for those Oahu members who will be retiring from September 1 to December 31, 2012. Neighbor island members who would like to schedule an appointment may contact the ERS representatives on their islands.

At these appointments, ERS staff will counsel you on your retirement benefits, provide general information on the retirement process, assist you with the completion of your retirement applications and other required forms. We encourage you to bring your spouse and/or significant other as well as your financial advisor, if applicable. It would also be very beneficial for you to attend a preretirement workshop a few months before the scheduled counseling appointment. These workshops provide an overview on retirement and discuss other areas related to planning your retirement. If you are interested, contact your department for the workshop schedule.

The following upcoming dates have appointments at 8 a.m., 9:15 a.m., 10:30 a.m., 1 p.m., and 2:15 p.m. at the ERS office on Oahu:

July 6, 13, 20, 25, 27

August 1, 3, 8, 10, 15, 23, 24, 29, 31

September 5, 7, 14, 18, 21, 26, 28

October 3, 5, 10, 12, 17, 19, 29, 30, 31

November 1, 2, 8, 9, 14, 23, 26, 27, 28, 29, 30

Please contact our office at (808) 586-1735 to schedule an appointment. You may also visit our website for more information on the appointment schedule and to complete and print an appointment registration form at <http://ers.ehawaii.gov>.

Medicare Part B Enrollment for Medicare Eligible Employees (65+) Considering Retirement

The Hawaii Revised Statutes 87A-23(4) requires that State and County retirees and their dependents who are enrolled in EUTF retiree benefit plans must enroll in Medicare Part B. Active employees considering retirement who are eligible for Medicare should enroll in Medicare Part B in order to participate in any EUTF retiree benefit plan. At the time you complete your retiree (EC-2) enrollment form, provide a copy of your Medicare Part B card as proof of enrollment. If no proof of enrollment is submitted within 60 days, your enrollment into the EUTF Retiree Benefit Plans will be cancelled back to your date of retirement.

Employees should begin the Medicare Part B enrollment process at least 45 days prior to retirement, by contacting the Social Security Administration at 1-800-772-1213. For more information regarding Medicare, employees should contact Medicare directly at 1-800-633-4227.

If you or your dependent are currently Medicare eligible and you are not considering retirement, EUTF does not require you or your dependent to enroll in Medicare.

Medicare Part B Premium Reimbursements

You are eligible to receive reimbursement for your Medicare Part B premium if: (a) you are a retiree or spouse or Civil/Domestic Partner of a retiree who is enrolled in the EUTF retiree plans; (b) you are enrolled in Medicare Part B; and (c) you have submitted proof of your enrollment (i.e., your Medicare Part B Card) to the EUTF. To start the reimbursement process you must send the EUTF a copy of your Medicare B card, along with a Direct Deposit Agreement form.

If your Medicare Part B premium is more than the standard amount, you should also send a copy of your Social Security Statement showing the amount of your Part B premium. Reimbursement computation is based on the later of the date on your card or the first day of the month in which the EUTF receives a copy of your Medicare B card. The EUTF will reimburse the full amount of the premium. Any penalties for late Medicare enrollment are not reimbursed. Reimbursements are direct deposited to your bank account quarterly.

Important: The EUTF is a separate organization from the ERS. If you have any questions about information in this article, please **DO NOT** contact ERS. Please contact the EUTF directly at 586-7390 or toll-free at 1-800-295-0089, or email the EUTF at eutf@hawaii.gov. You can also visit our website for more information @ www.eutf.hawaii.gov.

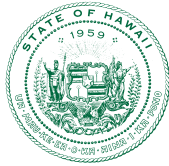


Employees' Retirement System

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Scan the QR code with your smartphone
to directly access the ERS website.

Holomua

Active Members



April/May/June 2012

Ask ERS

Answers to some frequently asked questions on the ERS new website

Q: I am employed by the State, but I'm not ready for retirement. Does the ERS still have information that I should know about?

A: The ERS has information that will cover you from the start of your employment through your retirement years as a pensioner. The MEMBERS tab has many categories that let you familiarize yourself with the retirement system.

Q: I'm considering leaving employment with the State but I'm not sure if now is a good time to leave. Is there any information available to help me make a decision?

A: Yes. The MEMBERS tab offers many categories of information including one that will provide you with information on LEAVING EMPLOYMENT.

Q: I'm moving to another address, but not retiring. Do I still need to let the ERS know?

A: Yes. Providing the ERS with your current mailing address information enables us to keep you informed of any news or changes that may affect you as an active member, inactive vested member or as a pensioner. An "Address Change Form" is located on the home page or under the MEMBERS tab > MEMBER FORMS.

How to Contact Us

Monday-Friday 7:45 a.m. - 4:30 p.m.
(except State holidays)

Oahu Office, Phone: (808) 586-1735

Kauai Office, Phone: (808) 274-3010

Hawaii Office, Phone: (808) 974-4077

Maui Office, Phone: (808) 984-8181

Molokai & Lanai, toll free to Oahu:
1-800-468-4644, ext. 61735

Continental U.S. toll free to Oahu:
1-888-659-0708, ext. 61735